

BRIEF

SUBMITTED TO

THE DINNING COMMISSION

ENQUIRING INTO

THE NATURAL GAS RESOURCES

OF ALBERTA

BY

FRANK McMAHON

CALGARY, ALBERTA

WITH A FURTHER MEMORANDUM

REGARDING THE SUBMISSION

FEBRUARY 19, 1949



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SUMMARY

1. The group represented in these submissions is, **Pacific Petroleum Ltd. of Calgary; its subsidiary, Peace River Natural Gas Co. Ltd.;**

Sunray Oil Corporation of Tulsa and Los Angeles;

Pacific Western Oil Corporation of Los Angeles;

Tide Water Associated Oil Company of San Francisco;

All of the above being substantial independent oil companies with capital and reserves aggregating several hundreds of millions of dollars; and

Eastman, Dillon and Co. of New York, prominent American financial house and underwriters of gas pipeline financing.

2. The group believes that the export of gas should not be permitted to endanger either the supply or price of gas to the people of Alberta.
3. The group is seeking to develop large new gas fields in Northern Alberta, which would assist in opening up that part of the Province to other industry and to population. Already it has found substantial gas deposits of its own.
4. Gas would not be taken from the fields of Central and Southern Alberta unless the Petroleum and Natural Gas Conservation Board deems it expedient to take gas from those regions; and unless the Government gives its express permission.

5. The group is exploring and drilling on millions of acres of Crown Reservations which it holds in Northern Alberta. It has more than \$600,000 on deposit with the Provincial Government in respect to this acreage. It has already spent several hundred thousand dollars and has set aside at least \$3,000,000 for further work in the next twenty-four months.
6. The group is co-operating closely with other operators in the development of the Northland acreage, and as a common carrier the pipeline will purchase gas from anyone in a position to deliver.
7. The proposed pipeline to Vancouver, B.C.; Seattle; Portland; and other Pacific Coast cities would cost between \$50,000,000 and \$100,000,000, depending on the source of the gas, the route chosen, and the number of cities to be served. Most of this money would be provided in the United States and spent in Canada.
8. The Companies backing the project are completely qualified to finance, construct, and manage this project.
9. The line would supply gas to many presently unserved communities both in Alberta and the interior of British Columbia.
10. Where Hydro-electric power is not available gas-electric plants would assist materially in extending rural electrification to areas not now served.
11. The gathering system for the pipeline would further expand the present grid system which could supply additional gas requirements of existing distributors.

MEMORANDUM

Further to Submission to the Dinning Commission:

In conjunction with the submission by the writer, Mr. Frank McMahon, to the Dinning Commission enquiring into the Gas Resources of the Province of Alberta, the following is a brief summary of the plan of operations, experience and financial competence of the underlying group represented, the extent of work done to date, and the present activities of the group within the Province.

Preliminary work on the project of transporting natural gas from the Province of Alberta to British Columbia and the North West United States cities was commenced by the writer in 1937. At that time a thorough investigation into the known and potential gas reserves of the Province was made. The developed and actual "on top of the ground" reserves as reported on by independent and Government engineers was accepted. The potential reserves were investigated and to this purpose independent geologists were retained to make reports on the undeveloped but patently obvious further sources of a supply of natural gas.

The market for gas in the Vancouver Area and in the neighboring cities in Western Washington and Northern Oregon was gone into at length with the majority of the information being gathered from the Companies which were then engaged in supplying manufactured gas to these areas. At a later date an exhaustive report into these markets for natural gas in the Pacific North West cities, including Vancouver, prepared by Ebasco Services Incorporated, of New York, was supplied to our group by the B. C. Electric Railway Company of Vancouver. This is the most recent and authoritative report on these markets.

Possible pipe line routes were checked to determine the shortest and most economical method of transporting the

gas from potential sources of supply to ultimate markets.

A large amount of pertinent information was compiled pointing to four main factors:

- A. The market for natural gas in sufficient quantities to justify the large expenditure to construct the line was available.
- B. The tentative routes and length of the line were practical.
- C. Further development and proving of the gas fields of Alberta will assure an adequate supply for these markets.
- D. Considerable development of these potential reserves would be necessary, however, so that the present price structure, source of supply, and the foreseeable future requirements of the Province would remain undisturbed and adequately protected.

The work which had been under way on this project was necessarily suspended during the war, but was immediately resumed on its cessation.

In 1945 Mr. S. E. Slipper was retained on a full time basis to continue the search for such additional reserves and direct a development program. Mr. Slipper's wide and varied experience in gas development work in Alberta needs no elucidation. He has grown up with the Province's gas and oil development.

Since that date we have acquired millions of acres under Reservations from the Alberta Government and at the present time have in excess of \$600,000 on deposit with the Province of Alberta in respect to these Reservations. Sev-

eral hundreds of thousands of dollars have already been spent, and a minimum of \$3,000,000 has been provided for active development of these properties, over the next twenty-four months. This amount is considered to be a minimum as the program and expenditures will increase as areas are proved.

In the work done to date, several wells have been drilled and reserves, the extent of which can only be determined by further drilling, have been discovered. Along the British Columbia-Alberta boundary in the Peace River Area a total of eight wells have been drilled. Two large gas wells were completed on the Alberta side with tested open flows of thirty-three million and twenty-four million cubic feet per day. Three productive wells were completed in British Columbia indicating inter-Provincial gas-fields of some magnitude. Another gas well on a Government Reservation at Halfway Lake is now being completed with a large gas flow indicated from preliminary tests. Success in this well marks the discovery of a sizeable gas reserve.

At present several drilling rigs are employed to further this development. In addition to its own program the group is assisting other operators in the same areas through the contribution of money and technical advice.

The development of large gas reserves in Northern Alberta and the transportation of some of the gas to new markets in Vancouver, B.C., Seattle, Washington, Portland, Oregon, and other Pacific Coast cities would stimulate expanding prosperity in the whole of the Northland, and the Province generally. Additional roads would be built, gas would be supplied to communities not now serviced, and would not only attract new industries, such as pulp wood, but encourage expansion of existing industry. Gas would be converted to cheap electricity with all its attendant advantages and assist in further rural electrification. All of these factors, together with the benefits from the expendi-

ture of large sums of money on pipeline construction and gas well drilling, would do much to further develop and open up the northern part of the Province.

In checking the possible pipe line routes to the ultimate market, preference has naturally been given to an all Canadian route, because of the obvious benefits which inevitably result from the same. Three alternative, all-Canadian routes have been checked and found feasible. The first from the Peace River through to Prince George and then Vancouver. The second from the Northern part of the Province down to Edmonton and through the Yellowhead Pass area to Vancouver. The third from the Northern part of the Province through Edmonton to the Southern part of the Province and then West to Vancouver. There are important differences in costs of the construction of lines along these different routes but we feel that the benefit to be obtained by Canadian communities should receive first consideration. The final decision as to the best and at the same time the most beneficial route, or routes, to be followed will be governed by the location of the gas fields in the Province from which the gas is to be drawn. Depending on the final route or routes chosen and the number of cities to be served, the estimated cost of the pipeline system is between fifty million and one hundred million dollars, the majority of which will be provided in the United States and most of it spent in Canada.

The group represented in the development and in the pipeline project are:

Pacific Petroleum Ltd. (N.P.L.)

This Company has been actively engaged in oil and gas well development in the Province for the past 11 years.

Peace River Natural Gas Co. Ltd.

This Company, a subsidiary of Pacific Petroleum Ltd., has drilled several gas wells on the British Columbia-

Alberta border and is actively carrying on an extensive development program.

Sunray Oil Corporation of Tulsa, Oklahoma and Los Angeles;

Pacific Western Oil Corporation of Los Angeles; and

Tide Water Associated Oil Company of San Francisco.

These Companies are all large independent producers in the United States with capital and reserves aggregating several hundreds of millions of dollars.

Eastman, Dillon & Co. of New York City, N.Y., members of the New York Stock Exchange, are one of the large financial houses of America.

The group has highly trained technical, geological, and engineering personnel in its employ. The personnel is specialized in all phases of operations of this nature and thoroughly competent to carry the project to its objective.

Following are the terms of reference of the Alberta Natural Gas Commission which has now completed its hearings, and is expected to deliver its Report to the Government in March.

THE COMMISSION

NOW KNOW YE that by and with the advice of Our Lieutenant Governor in Council, we do by these Presents nominate, constitute and appoint, pursuant to the provisions of The Public Inquiries Act, being Chapter 139 of the Revised Statutes of Alberta, 1942; **ROBERT J. DINNING**, of the City of Calgary, in the Province of Alberta, **ANDREW STEWART**, of the City of Edmonton, in the Province of Alberta, and **ROY C. MARLER**, of the Hamlet of Bremner, in the Province of Alberta, as Commissioners to conduct the said inquiry.

(1) to investigate the existing and proven reserves of natural gas in the Province of Alberta;

(2) to inquire into and estimate the potential reserves of natural gas in the Province of Alberta;

(3) to inquire into the present domestic, commercial and industrial consumption of natural gas in the Province of Alberta;

(4) to estimate the future requirements of natural gas for domestic, commercial and industrial purposes in the Province of Alberta;

(5) to make such further inquiries into the situation surrounding the use of natural gas in the Province of Alberta as they may deem necessary, having in mind the best interests of the people of the Province of Alberta;

(6) to report their findings to the Lieutenant Governor in Council.

**IN THE MATTER OF A COMMISSION CONDUCTING
AN ENQUIRY INTO RESERVES AND CONSUMPTION
OF NATURAL GAS IN THE PROVINCE OF ALBERTA**

♦ ♦ ♦ ♦

**Brief submitted by Frank McMahon of Calgary, Alberta,
on behalf of**

Pacific Petroleums Ltd.;

Peace River Natural Gas Co. Ltd.;

**Pacific Western Oil Corporation of Los Angeles, Cali-
fornia;**

**Tide Water Associated Oil Company of San Francisco,
California;**

Sunray Oil Corporation, of Tulsa, Oklahoma;

**Eastman, Dillon & Co., of New York;
And Associated Corporations and Individuals.**

TO THE MEMBERS OF THE COMMISSION:

Introduction:

I am presenting this short brief on behalf of the above mentioned corporations and individuals in the hope that one or two thoughts which I will express may be of some assistance to the Commission. I realize that a great amount of technical evidence has been submitted to you concerning the first four points listed in your Commission and I do not propose to give any further evidence on those points nor to call any such evidence. I am anxious, however, to comment on point five, which I believe has been interpreted to mean that the export of natural gas from the

Province of Alberta is a proper subject of investigation and inquiry by this Commission. We have a decided interest in the export of gas to the Pacific North West and particularly to the City of Vancouver preferably via a Canadian route.

I use the word "preferably" because it is conceded that in the eventual location of a pipeline factors such as the location of gas fields from which export is permitted may be a determining factor.

Experience and Investigation.

From 1937 on we have worked continuously on that project and at our instigation surveys of markets have been conducted, possible pipeline routes to the Coast were explored, exhaustive studies were made concerning necessary gas reserves, both developed and potential.

During the war years the work, while not quite suspended, was necessarily curtailed.

In 1945 our group retained the services of Mr. S. E. Slipper, Geologist, on a full time basis, for the purpose of pressing to completion a satisfactory and reasonable plan to supply Coastal cities with natural gas. Mr. Slipper's wide and varied experience in gas development work in Alberta needs no elucidation. He has grown up with the Province's gas and oil development.

Preservation of Supplies and Price Structure of Domestic Market

Certain gas reserves have already been developed and proven in the Province and some of these constitute the source of supply for the present and potential consumer demand in Alberta. We believe that sufficient of these sources of supply should be reserved to provide for the future requirements of natural gas for domestic, commercial

and industrial purposes in the Province of Alberta. To export gas from such reserves would only serve to completely upset the supply and price structures in the Province and that is certainly not desirable nor in the best interests of the people of Alberta.

There are vast potential reserves of natural gas in the Province and after adequate provision has been made for local consumers it would, in our opinion, be in the best interests of Alberta and of Canada to permit the export of gas to other parts of Canada and to the United States. Such export is only feasible and possible when the potential reserves have been developed to the extent necessary to justify pipeline construction.

Canada First Policy:

It is our firm conviction that in the export of gas from this Province a Canada First policy should be adopted. Canadian consumers should be the first to be served. By putting a pipeline through to Vancouver, via a Canadian route that object will be accomplished and Vancouver will receive priority.

There are large potential consumer demands for gas in Western Canada, East through to Winnipeg and West to Vancouver. We believe that these Canadian requirements should form an integral part of the eventual markets. As a result, our plans for the supply of gas to the Pacific North West and particularly the Vancouver area were and are designed to give preference to the construction of an all Canadian pipeline.

It has been suggested to the Commission that an all Canadian route to Vancouver is:—

- (a) Physically impossible;
- (b) Prohibitive in cost;
- (c) Difficult, if not impossible, to maintain:

The answer to these suggestions is simple:

We are prepared to do it. The cost may or may not run higher than the route suggested via the United States but in any case the cost is not prohibitive, the engineering is not only possible but practical and the pipeline system can be adequately and efficiently maintained.

An all Canadian line means that many additional communities in Alberta and British Columbia would be served with natural gas; it means that the major section of the transmission system would be under Canadian control; it means that this country would reap the benefits of the expenditure of large amounts of United States capital in the construction of the major portion of the pipeline within our own borders; it means that all questions of pipeline rates, safety regulations and in fact all other controls would be under the supervision of Canadian authorities.

Foreign Exchange Benefits:

Attention has already been drawn to the American capital which would be attracted in the actual construction of a pipeline. Added to that we must take into consideration the value of the gas exported to centres such as Seattle, Tacoma, Portland, etc. The said value would be much greater south of Vancouver than at any point in Southern Alberta due to the fact that the cost of transmission to the Pacific Coast would be included in the export price of the gas so sold. The enhanced sale price of the gas so exported would result in the largest possible amount of United States dollars coming to Canada and would do much to improve the money exchange position between the two countries. Other advantages accruing to this Province and to its people have been advanced by other evidence and by other briefs and need not be repeated. - It is well however to re-emphasize and reiterate that an export market for gas will mean much in additional royalty to the Province of Alberta, and what is of still greater importance, would provide

added incentive to general oil and gas development work in the Province with all the benefits resulting therefrom.

Conclusion:

This group plans to incorporate a Company under proper governmental authority governing the export and transmission of gas. The group controls and will make available to that Company all necessary finances for the construction of a gas transmission system immediately upon the establishment of adequate gas reserves. As a common carrier, transporting and/or purchasing gas from any producers, this transmission system will be designed to serve Vancouver, intervening points and United States cities in the Pacific Northwest. The group not only controls the necessary finances but is also in a position to supply the necessary management of construction and operation of such a project in all of its phases and ramifications.

Our group has acquired at considerable cost millions of acres of prospective oil and gas producing areas in this Province. We have spent several hundreds of thousands of dollars and are continuing to spend large amounts on actual development of that acreage including drilling wells, seismograph and gravity meter surveys and general geology. Several wells have been drilled and some gas reserves developed.

In conclusion may I stress the point that our plan for the export of gas from this province to any other market is based on the development of additional reserves and is designed so that it will not upset the supply and price structure within the Province.

All of which is respectfully submitted.

FRANK McMAHON.

Calgary, Alberta,
January 28th, 1949.



